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Sugar Semi-annual

EU Sugar Returns to Normal Levels

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Report Highlights:
The MY 2010/11 EU sugar beet crop is forecast to see yields slightly above average, but production will be over 2 million MT below the 2009 harvest. MY 2010/11 EU sugar consumption is forecast to marginally increase. EU sugar imports and exports in MY 2010/11 are forecast to return closer to trend levels. High sugar prices and strong sales to other destinations during MY 2009/2010 made the EU a less attractive destination for exporters, lowering EU sugar imports by 0.5 million MT compared to MY 2008-09. These market conditions also allowed an increase in EU sugar exports. MY 2010/11 marks the end of a 5-year restructuring period under the Sugar Reform. After several years of economic difficulty because of the costs of restructuring due to EU Sugar Reform, a much leaner and more competitive EU sugar industry is emerging.

Executive Summary:

Notes to the reader:

- *In this report, all sugar is in raw sugar equivalent unless otherwise noted.*
- *The PSD in this report only pertains to sugar as defined by HS 1701. It hence excludes sugar beet production destined for fermentation or other industrial purposes.*
- *Conversion factors and methods used in this report:*
  MY = marketing year; for sugar October- September
  Raw cane sugar = 1.07 X Refined cane sugar
  Raw beet sugar = 1.087 X White (refined) beet sugar
- *Sugar imports for EU inward processing purposes are excluded from this report's PSD as they are entirely re-exported as processed products. Inward processing is the EU program under which the import duties for dairy, sugar, and starch containing commodities for processing and subsequent re-export are suspended when world market prices are lower than EU commodity prices.*

After the 2009 EU sugar beet bumper crop, the EU sugar industry is expected to see levels return closer to normal. Tthe 2010 harvest is expected to offer close to or just above average sugar yields per hectare butcombined with a 4 percent decrease in acreage, total MY 2010/11 sugar beet and cane production is forecast MY 2010/11to be 14.8 million MT raw sugar equivalent (RSE). EU sugar imports and exports are forecast to return closer to trend levels in MY 2010/11, although imports under the Everything But Arms and European Partnership Agreements from developing and ACP [1] countries are expected to increase. MY 2009/10 sugar imports decreased 0.5 million MT compared to MY 2008-09 as high sugar prices on the world market for sugar made the EU a less attractive destination, while high domestic sugar surpluses did not allow for the duty on imports of sugar for industrial use to be reduced. EU sugar exports were strong in MY 2009/10, particularly to the Middle East and Northern Africa. Delayed export licences from MY 2008-09 and an additional 500,000 MT to the export quota were efficiently used by exporters. At the end of MY 2009/10 and MY 2010/11, EU sugar stocks are expected to reduce to pipeline supply requirements.

[1] Former colonies in Africa, the Caribbean and Pacific used to have preferential market access to the EU under the Cotonou Agreement.

Commodities:

Sugar, Centrifugal

Production:

After the record sugar yields per hectare in MY 2009/10, early beet harvest samplings in several EU Member States (MS) suggest that sugar yields in MY 2010/11 will be closer to the average. Total EU-27 beet sugar production in MY 2010/11, is forecast at about 14.5 million MT RSE, or more than 2 million MT below the 2009 bumper crop. Another 2.5 million MT RSE produced is forecast to be used for industrial purposes and ethanol and is not included in the PSD table above. The production decline is attributed to a 4-percent decrease in acreage and yields closer to average levels after a late spring drought and a wet August kept beet development in check. However, good beet maturing weather during September and October are expected to enhance sugar content to at least long-term average sugar content.

EU sugar beet production												
	Area, thousands of Hectares				Sugar beet yield in MT per Hectare				Sugar content in percentage			
	07/08	08/09	09/10	10/11	07/08	08/09	09/10	10/11	07/08	08/09	09/10	10/11
Austria	42.3	43.0	43.9	44.0	62.1	71.8	70.6	71.0	16.60	16.96	16.30	17.00
Belgium	82.7	64.0	62.7	59.4	68.3	68.6	82.7	80.0	17.00	17.82	18.40	17.50
Denmark	39.4	36.2	38.5	38.0	57.2	60.0	54.5	55.0	17.80	17.80	19.60	18.00
Finland	16.0	13.6	14.8	14.0	41.9	34.6	37.7	38.0	16.80	16.48	17.20	16.50
France	393.5	349.0	370.0	360.0	83.7	86.8	89.6	85.0	18.10	18.70	19.50	18.50
Germany	391.5	363.8	379.6	362.0	64.2	63.2	71.5	68.0	17.46	18.04	18.15	18.00
Greece	13.6	13.8	24.0	23.4	56.7	64.5	66.2	66.0	13.40	14.00	14.00	14.00
Italy	85.6	61.2	60.6	57.0	59.0	62.9	53.0	57.0	16.60	15.48	15.95	14.00
Netherlands	82.1	72.2	72.7	71.0	67.1	72.3	78.9	80.0	17.40	17.21	17.70	17.20
Portugal	1.6	0.3	0.2	0.2	76.7	40.8	40.9	40.9	16.34	13.45	14.39	14.39
Spain	55.4	50.7	45.5	45.9	79.6	82.1	82.6	81.3	17.96	17.91	17.48	17.43
Sweden	40.8	36.8	39.4	39.0	52.5	53.5	53.4	53.0	17.70	17.40	18.30	17.50
U.K.	125.1	119.8	119.3	104.0	53.8	63.8	69.9	60.0	17.96	17.65	18.00	17.50
Czech R.	54.3	51.0	53.7	52.0	54.7	57.2	52.3	N.A.	17.10	18.04	16.85	N.A.
Hungary	41.2	9.6	13.3	13.0	41.0	59.6	52.9	55.0	15.90	17.14	N.A.	N.A.
Lithuania	16.9	8.7	15.1	15.0	47.4	39.0	45.2	45.0	17.50	18.13	17.50	17.50
Poland	220.0	176.4	200.0	190.0	58.4	48.4	46.9	50.0	17.10	17.20	17.10	17.20
Slovak R.	18.9	11.0	15.0	17.7	47.5	61.0	46.6	N.A.	16.20	17.21	17.00	16.50
Romania	28.7	20.4	21.3	24.3	26.0	34.6	38.0	33.0	15.10	16.50	N.A.	N.A.
Total EU-15	1369.6	1224.4	1271.1	1217.8	65.0	67.5			17.60			
Total NMS	380.0	277.1	318.4	311.1								
Total EU-27	**1749.6**	**1501.5**	**1589.5**	**1528.9**	**60.9**	**63.8**	**64.7**		**17.50**	**17.70**	**18.50**	

Source: EU FAS posts

The sugar production forecast for MY 2010/11 is increased from the previous forecast, because more of the beet production will be pulled away from other uses. Out of MY 2009/10 production, 554,000 MT or about 600,000 MT RSE of beet sugar is carried over to count towards the MY 2010/11 sugar quota. Despite strong competition from cheap grains, bio-ethanol production from sugar beets was higher in MY 2009/10 than anticipated. This was triggered by the large supplies from the 2009 bumper sugar beet crop and, especially in the last quarter of the MY 2009/10, bio-ethanol producers decided to liquidate thick juice stocks for bio-ethanol rather than processing it into surplus sugar for stocks. This occurred as grain prices increased significantly in the summer of 2010 following unfavorable harvesting conditions and poor yield reports, while EU sugar prices for industrial sugar declined.

Average price for industrial white sugar within the Community

Prices at destination for homogeneous granulated crystal, standard quality, in bulk or big bags

Prices communicated by EU yeast and chemical industry

	PURCHASE PRICES	
	average (1)	standard dev (2)
July 2007	356	137
August 2007	352	140
September 2007	304	146
October 2007	419	144
November 2007	417	160
December 2007	482	162
January 2008	386	142
February 2008	435	146
March 2008	388	127
April 2008	318	54
May 2008	329	53
June 2008	319	59
July 2008	338	51
August 2008	332	48
September 2008	330	52
October 2008	316	54
November 2008	277	52
December 2008	328	65
January 2009	345	46
February 2009	324	77
March 2009	322	68
April 2009	329	68
May 2009	323	57
June 2009	329	64
July 2009	325	64
August 2009	325	66
September 2009	334	85
October 2009	327	69
November 2009	325	68
December 2009	327	64
January 2010	336	68
February 2010	330	62
March 2010	326	57
April 2010	323	54
May 2010	317	40
June 2010	320	53

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April 2009	329	68
May 2009	323	57
June 2009	329	64
July 2009	325	64
August 2009	325	66
September 2009	334	85
October 2009	327	69
November 2009	325	68
December 2009	327	64
January 2010	336	68
February 2010	330	62
March 2010	326	57
April 2010	323	54
May 2010	317	40
June 2010	320	53

Source: DGAgri

Average price for white sugar within the Community

Ex-work prices for homogeneous granulated crystal, standard quality, in bulk or big bags

Prices communicated by EU sugar producers and refiners

	SELLING PRICES			
	sugar		industrial sugar (1)	
	average (2)	standard dev (3)	average (2)	standard dev (3)
July 2006	630	20	284	31
August 2006	634	22	288	30
September 2006	636	21	287	37
October 2006	632	17	286	43
November 2006	633	17	294	88
December 2006	632	17	294	98
January 2007	629	18	284	58
February 2007	629	18	288	68
March 2007	628	18	283	78
April 2007	627	19	298	81
May 2007	625	20	293	77
June 2007	622	18	297	78
July 2007	621	22	301	76
August 2007	620	25	319	76
September 2007	619	26	305	78
October 2007	617	23	287	70
November 2007	616	25	277	55
December 2007	618	20	278	42
January 2008	612	20	289	71
February 2008	596	26	271	43
March 2008	604	25	271	51
April 2008	603	26	261	36
May 2008	606	23	264	38
June 2008	607	20	263	42
July 2008	598	30	263	47
August 2008	601	25	263	41
September 2008	595	28	267	48
October 2008	578	32	270	48
November 2008	574	32	276	68
December 2008	574	36	285	55
January 2009	564	30	292	64
February 2009	551	32	311	46
March 2009	567	21	294	50
April 2009	564	23	295	40
May 2009	566	19	306	46
June 2009	563	20	312	42
July 2009	562	21	305	55
August 2009	561	20	300	46
September 2009	555	23	333	46
October 2009	499	30	283	42
November 2009	493	29	337	105
December 2009	495	26	315	100
January 2010	479	19	320	40
February 2010	474	27	349	44
March 2010	477	24	350	33
April 2010	477	24	338	38
May 2010	479	25	313	37
June 2010	476	24	338	82

Source : DGAgri

Consumption:

EU domestic consumption will remain stable. Consumption for MY 2009/10 is expected to marginally increase to 16.9 million MT RSE. The majority of this sugar is used in the food processing industry, which took advantage of abundant domestic supplies. This number includes EU exports of sugar containing food and drink products. With the economy recovering, EU sugar consumption for MY 2010/11 is forecast to increase marginally.

Trade:

Imports

EU sugar imports in MY 2009-2010 are expected to end about 0.5 MT below MY 2008-09 imports. This was the result of high world market prices, which made the EU a less attractive export destination. At the same time, the EU domestic bumper crop did not allow the European Commission (EC) to lower import duties for sugar for industrial purposes, as a result of which importers of industrial sugar could not use the 400,000 tariff rate quota.

EU sugar imports in MY 2010/11 are forecast to improve following a strong first round of license applications in September 2010. However the forecast was lowered compared to the previous report, as world market prices for sugar are expected to remain strong and 2010 EU sugar beet yields are expected to be above the long-term average. The relationship between EU grain prices and EU industrial sugar prices will also impact sugar imports for industrial purposes. With the Everything But Arms agreement, which allows duty free access to EU markets for least-developed countries, now fully implemented and the signing of new Economic Partnership agreements with ACP countries, the European sugar market is accessible for sugar imports to the safeguard limit of 3.5 million MT white sugar equivalent. A recently signed Free Trade Agreements (FTA) with Columbia and Peru [1] and a new EU-Central America Association Agreement [2] , which all include EU concessions for sugar imports, still need ratification and will not be implemented until after MY 2010/11.

Exports

EU exports in MY 2009/10 are expected to end at 2.4 million MT, or 200,000 MT higher than the previous estimate because experienced exporters made optimal use of outstanding export licenses from MY 2009/10 to export sugar from the fresh harvest in the last months of calendar year 2009. In particular, Middle-Eastern and Northern African importers bought above average quantities of sugar. The additional out-of-quota sugar export quota of 500,000 MT that was announced in Commission Regulation (EU) No 94/2010 [1] of February 3, 2010, which was awarded by export licenses with only 30 days validity, was fully used.

EU sugar exports in MY 2010/11 are forecast to fall back to the EU's WTO sugar export limit.

[1] http://trade.ec.europa.eu/doclib/docs/2010/march/tradoc_145896.pdf
[2] http://trade.ec.europa.eu/doclib/press/index.cfm?id=572&serie=343&langId=en
[1] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:032:0002:0003:EN:PDF

Stocks:

While, the 2009 bumper crop was expected to end in large sugar stocks at the end of MY 2009/10, the exceptionally high exports, as well as the late season processing of thick juice into bio-ethanol, cleared most of the additional production sugar from the 2009 crop. Some 600,000 MT RSE is expected to be declared by processors as carry-over for the MY 2010/11 production quota, lowering the amount of new production that can count towards the production quota. As a result, the forecasted above average 2010 sugar beet harvest is not forecast to be stored until the 2010/11 EU sugar market year and end of MY 2010/11 EU sugar stocks are forecast to be reduced to pipeline requirements only, with little or no need for sugar carry-over into the MY 2011-12 quota year.

Policy:

Sugar and the Post 2013 CAP reform debate

Every 5 years, the EU agricultural policy and budget is agreed upon. This round is referred to as the Post 2013 Common Agricultural Policy (CAP) reform [1] . Wide public and stakeholder input were sought in the spring of 2010 and Agriculture Commissioner Ciolos has announced that the EC will present a paper before the end of 2010 identifying a broad outline of policy objectives. This will mark the opening of discussions with the EU MS in the European Council and the European Parliament on a new Common Agricultural Policy (CAP) for Europe after 2013. The present sugar production quota regime, which was amended by the Sugar reform [2] of 2005 and included in the Single CMO Council Regulation 1234/2007 [3] , is in effect through MY 2014-15. Comments on possible agricultural policy regarding sugar by the EU sugar producers can be found on the website of the Confederation of European Sugar Beet Growers [4] (CIBE), who recently spoke out in favour of the continuation of sugar quota in the post CAP 2013 reform. EU sugar processors have gained significant productivity increases from the sugar reform but, due to costs associated with restructuring, many processors are faced with several years of financial hardship and only now are beginning to see positive balance sheets. As a result of the Sugar Reform, EU sugar production quota decreased by a third to 5.8 million MT, turning the EU from the second largest sugar exporter into the second largest importer. In the last decade, 147 sugar factories or 60 percent of the total were closed. Also at the farm level, the full impact of adjustments to the post sugar reform situation have not yet fully been seen, though reportedly 140,000, or 45 percent, of the sugar beet growers left the industry since 2004.

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[1] http://ec.europa.eu/agriculture/cap-post-2013/index_en.htm

[2] http://ec.europa.eu/agriculture/capreform/sugar/index_en.htm

[3] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2007R1234:20081001:EN:PDF

[4] http://www.cibe-europe.eu/

Production, Supply and Demand Data Statistics:

EU27 Sugar, Centrifugal									
	2008/2009			**2009/2010**			**2010/2011**		
Market Year begin	**October 2008**			**October 2009**			**October 2010**		
	USDA Official	**Old Post**	**New Post**	**USDA Official**	**Old Post**	**New Post**	**USDA Official**	**Old Post**	**New Post**
Beginning Stocks	3,130	3,130	3,130	2,232	2,232	2,232	3,365	3,365	2,375
Beet Sugar Production	13,758	13,758	13,758	16,400	16,400	16,400	13,600	13,600	14,500
Cane Sugar Production	256	256	256	283	283	430	285	285	300
Total Sugar Production	14,014	14,014	14,014	16,683	16,683	16,830	13,885	13,885	14,800
Raw Imports	2,605	2,605	2,611	2,900	2,900	2,100	3,300	3,300	3,000
Refined Imp.(Raw Val)	568	568	569	550	550	520	600	600	575
Total Imports	3,173	3,173	3,180	3,450	3,450	2,620	3,900	3,900	3,575
Total Supply	**20,317**	**20,317**	**20,324**	**22,365**	**22,365**	**21,682**	**21,150**	**21,150**	**20,750**
Raw Exports	8	8	8	10	10	7	10	10	10
Refined Exp.(Raw Val)	1,323	1,323	1,324	2,190	2,190	2,400	1,450	1,450	1,450
Total Exports	1,331	1,331	1,332	2,200	2,200	2,407	1,460	1,460	1,460
Human Dom. Consumption	16754	16754	16,760	16,800	16,800	16,900	16,900	16,900	17,000
Other Disappearance	0	0	0	0	0	0	0	0	0
Total Use	16,754	16,754	16,760	16,800	16,800	16,900	16,900	16,900	17,000
Ending Stocks	2,232	2,232	2,232	3,365	3,365	2,375	2,790	2,790	2,290
Total Distribution	**20,317**	**20,317**	**20,324**	**22,365**	**22,365**	**21,682**	**21,150**	**21,150**	**20,750**

Related reports from FAS EU

E50033	Sugar Annual	04/22/2010
E50008	EU Sugar Export Quota increased to 1,850,000 metric tons of refined sugar	01/29/2010
	Annual Biofuels Report	06/29/2010

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